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Canada's New Government Tables Legislation to Strengthen Canada's Financial System

Related document:

- Backgrounder

The Honourable Jim Flaherty, Minister of Finance, today tabled legislation to ensure Canada continues to be a world leader in financial services.

"This legislation will help modernize our regulations, cut red tape and advance the interests of consumers," said Minister Flaherty.

The Government of Canada regularly reviews the statutes that govern federally regulated financial institutions, including domestic and foreign banks, trust companies, insurance companies and cooperative credit associations. To give Parliament enough time to consider this legislation, the sunset date for the financial institutions statutes was extended by six months to April 24, 2007.

The proposed legislation is largely based on the June 14, 2006, policy paper entitled *2006 Financial Institutions Legislation Review: Proposals for an Effective and Efficient Financial Services Framework*.

The proposed changes introduced today include:

- Providing greater and more timely disclosure to consumers in areas such as deposit-type investment products and complaint-handling procedures.
- Streamlining ministerial transaction approvals to make the process more efficient.
- Creating a framework for the introduction of electronic cheque imaging—a new technology that would reduce the time consumers and small businesses must wait for their cheques to clear.
- Reducing the cost of mortgages for some borrowers by lowering the mortgage down payment consumers are required to make before the law requires the purchase of mortgage insurance.

- Making it easier for credit unions to establish cooperative credit associations as a means of expanding their business opportunities.

- Additionally, as mentioned in the Government's new economic plan, *Advantage Canada: Building a Strong Economy for Canadians*, the Government proposes that Canadian financial institutions be allowed to add more foreign experts to their boards as long as the majority of directors remain Canadian residents.

Further information is contained in the attached backgrounder. A copy of the June 14 policy paper can be viewed on the Department of Finance website.

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Backgrounder

Financial Institutions Legislation Review

Background

Canada's federally regulated financial institutions play a pivotal role in the national economy and in Canadians' lives. The sector employs about 700,000 Canadians and represents about 6 per cent of Canada's gross domestic product.

The Government of Canada is responsible for ensuring that the regulatory framework allows financial sector participants to operate as efficiently and effectively as possible in serving consumers and businesses, while maintaining the safety and soundness of the sector. The regular five-year review of the financial sector framework is an important tool in meeting these responsibilities.

The last legislative review was completed in 2001, when Bill C-8 came into force. At that time, the sunset date for the financial institutions statutes was set at October 24, 2006.

In Budget 2006, the Government extended the legislated sunset date for the financial institutions statutes by six months, from October 24, 2006 to April 24, 2007, to provide Parliament with sufficient time to consider this important legislation.

Consultations

On June 14, 2006, the Government issued a policy paper entitled *2006 Financial Institutions Legislation Review: Proposals for an Effective and Efficient Financial Services Framework*. In response, the Government received

comments from about 30 stakeholders—industry associations, consumer groups, individual Canadians and other groups—on the implementation of the proposed framework. The comments were generally supportive of the proposals laid out in this white paper. The proposed bill takes into account the submissions received.

Key Legislative Measures

The proposed legislation, which is largely based on the June 14 white paper, will enhance the interests of consumers, increase legislative and regulatory efficiency, and adapt the framework to new developments.

The legislation will enhance the interests of consumers by including such measures as:

- Improving the disclosure regime to ensure that consumers have the relevant information to make the best decisions in light of the choices available to them. For example, the legislation will include a new disclosure regime for deposit-type investment products to ensure that consumers receive appropriate information that is specific to the type of products they are purchasing.

- Facilitating the establishment of a limit on the time that banks can hold a cheque.

The legislation will increase legislative and regulatory efficiency by including such measures as:

- Simplifying the foreign bank entry framework and reducing the burden, especially for "near banks," (foreign entities that are not regulated as banks in their home jurisdiction, but that provide banking-type services).

- Improving the regulatory approval regime to ensure that financial institutions transactions are dealt with more expeditiously, thereby enhancing the efficiency of the process. As such, the legislation will clarify, simplify and streamline the approval requirements for certain transactions.

- Adding flexibility to the federal framework for the credit union system by making it easier for credit unions to incorporate an association, thereby allowing the system to improve its capacity to adapt to new developments.

- Reducing the cost of mortgages for some borrowers by raising to 80 per cent the loan-to-value threshold above which mortgage insurance is required by statute.

The legislation will adapt the framework to new developments by including such measures as:

- Providing an enabling framework for electronic cheque imaging that will result in significant efficiency gains, saving time and resources currently dedicated to the transport of cheques.

- Improving the Bank Act special security regime by proceeding with changes to the administration of the regime.

- Adjusting the equity thresholds that determine the size of financial

institutions for the purposes of the ownership regime, to take into account the growth of the sector since 2001. Large institutions required to be widely held will be those over $8 billion in equity. Medium-sized institutions generally required to float 35 per cent of their voting shares will become those between $2 billion and $8 billion in equity.

In addition, as mentioned in the Government's economic plan, *Advantage Canada*, the bill proposes changes allowing Canadian financial institutions to add more foreign experts to their boards as long as the majority of directors remain Canadian residents. The changes will allow Canadian institutions to attract expertise, strengthen their networks and enhance their capacity to pursue global business opportunities.

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